

**COMMITTEE ON ACCOUNTS, ENROLLMENT
AND REVENUE ADMINISTRATION**

January 31, 2006

5:00 PM

Chairman Pinard called the meeting to order.

The Clerk called the roll.

Present: Aldermen Pinard, Smith, DeVries, Long

Absent: Alderman Thibault

Messrs.: Alderman Lopez, Scott Bassett, Kevin Clougherty

Chairman Pinard advised that the first purpose of the meeting was organizational in nature, and requested the Clerk to provide a brief overview regarding typical issues addressed by the Committee.

Deputy City Clerk Johnson stated the Committee on Accounts, Enrollment and Revenue Administration is a multi-purpose committee. In the first instance you would take ordinances and review them as they are referred to you to make sure that they are consistent with the required law and report that back to the Board of Aldermen and would determine whether they are properly enrolled and is generally done on recess of the Board of Mayor and Aldermen. The second purpose that the committee serves is to review various financial reports including periodic reports from the Board of Assessors regarding the real estate tax base of the city, abatements filed and their disposition and jurisdiction over policy regarding city expenditures, revenue performance and forecasts, financial statements, audit reports, city bonding and such other matters as may be referred by the Board. Anything that you review is typically reported out to the Board especially if it has been specifically referred to the committee. This is also outlined in your government books if you want to review that any further.

Chairman Pinard addressed item 4 of the agenda:

4. Presentation of the draft FY2005 Comprehensive Annual Financial Report (CAFR) and draft Management Letter by McGladrey & Pullen, LLP.

Mr. Kevin Clougherty, Finance Officer, stated I'm here tonight to introduce Scott Bassett on my right who is with the audit firm of McGladrey & Pullen who is reviewing the city's Annual Comprehensive Financial Report (CAFR). Just by way of setting...each year the Board of Mayor and Aldermen adopt a budget and during the course of the subsequent fiscal period it's the responsibility of this committee and the Finance Department to ensure that all the different transactions and all the different accounting related to the finances of the city are handled in an appropriate manner that's consistent with Generally Accepted Accounting Principles (GAAP) and to that end at the completion of the fiscal year we prepare a Comprehensive Annual Financial Report which you all should have received. This document is prepared in our office...every page of this is written by Guy, Sharon and Joanne and want to recognize them for all the hard work that they do to not only do the transactions but then prepare the report on what's happened. Once the report is prepared we hand it off to an external independent firm...this is year's McGladrey and they as CPA's come in and review all of the transactions in every page of the report to make sure that it is in fact in compliance with GAAP because as this report is circulated to financial institutions, it goes to the credit rating agencies, it goes to underwriters, it goes to the taxpayers and it goes to the Board of Aldermen. As this report is circulated...as important as the information is in it the first thing that people turn to is the page from the audit firm that says in fact that the report has been prepared in compliance with the GAAP and in developing their opinion they have to follow auditing standards that are promulgated by the Comptroller General of the United States. So, when the report is presented to you tonight it's really a report card on the performance of the city not just the Finance Department but really the Committee on Accounts and how good a job have we done in making sure that all of those receivables came in on time and how good a job did we do to make sure that all the transactions and payments that should have been made were done accurately. The general purpose of what the auditors do is they come up with two things: first, their opinion letter which Scott will discuss with you and say are we in compliance and if not were aren't we and why aren't we and then second of all if they find something that's really problematic they issue a reportable condition. We have no reportable conditions so for all of these transactions that have gone through over the last couple of years we haven't had reportable conditions but the next level is if the auditors see something that would be helpful then they can make an observation and there are four observations in the Management Letter this year which Scott will cover with you...two are repeats from prior years...so, with that I am going to hand it off to Mr. Scott Bassett from McGladrey & Pullen and let him talk a little bit about the Annual Financial Report and how well we did this year.

Mr. Scott Bassett stated I'm a partner with McGladrey & Pullen. We were hired to conduct an audit of the June 30, 2005 financial statements of the City of Manchester, New Hampshire. We conducted our audit in accordance with Generally Accepted Auditing Standards which give not absolute assurance on all of the numbers but what we do state in there is that the numbers as presented are materially correct. We do take a look at internal controls...this was not an audit of the internal control structure of the city but as part of cleaning our audit we do go through the major control cycles of each department involved with the city and if we see a weakness or something that would enable us to go through the cycles and the testing of those transactions we measure that and in governmental accounting standards you have three criteria as far as categories of what we'd call internal control weaknesses. One would be a material weakness which is the most severe, the second would be as Kevin mentioned a reportable condition and the third would be observations or management comments which we have this year...I believe four of them. Prior to doing all of that our main job is to take a look, as Kevin mentioned, of the presentation of the statements to say are these statements presented in generally accepted principle format and they are. So, with that what I'm going to turn you to...this is a 140-page document and going through the document and knowing where all of the numbers tie in things can be quite overwhelming but if you would turn to page 19...what this is is the City of Manchester's Management Discussion and Analysis (MD&A). This is something similar that you'd see on an SEC client and within 10 pages or so we talk about what management talks about...the financial highlights of the city, some of the major undertakings of the city, budgetary results of the city, capital expenditures of the city and the debt structure of the city which is a 10-page document. I used to summarize the report to present to councils and committees allowing information in this MD&A is pretty much the same things I would highlight. So, this gives the typical taxpayer or user of the financial statements somewhere to go in a narrative format to find out just what happened with the city. Turning to page 19 the first four bullets we talk about are the financial highlights of the city. Within this statement we talk about two or three different fund balances, we're going to talk about results of operation that differ significantly from general basis of accounting to the other unlike a typical corporation. Included in this document we measure things three different ways which is kind of confusing but I'll try and walk you through it. The first bullet here we talk about the government-wide basis of accounting and that's where we measure all of our long-term assets and our current assets and our long-term liabilities and current liabilities and get a result of net assets. You do not adopt budgets on that basis of accounting but you may look at that as you adopt your budget to see just what's happening. One of the key features in there is the depreciation of your capital assets during the year. So, on that first bullet you'll see we had total net assets at the close of the fiscal year of \$433 million...now that includes all of the operations of the city...that includes

the Airport, EPD, Water Works, it includes everything in that number. The Governmental Activities had \$93.5 million and the total assets of the Business-Type Activities which are your funds that are set up to be self-sustaining and generate a profit were \$339.6 million. The bulk of those two numbers are your investment and capital assets net of related debt. The Governmental Basis we pass your General Fund balance for the current year...we had a decrease of \$1 million during the year...the result was in a reserve undesignated fund balance of \$1.1 million on the General Fund as a result of that. On the third basis of account, the GAAP basis of accounting was very much similar to this modified accrual basis...again on a GAAP basis we had a \$1 million decrease and on a budgetary basis we had a \$2 million decrease and part of that was a planned use of some fund balance during the year. One of the major things that also happened during the year is that we increased our capital assets by \$87 million this year. So we talk about what we spent that money on but we also decreased that by \$9 million in the current year. All that said and done as you go through the MD&A from an auditor's standpoint...one of the key factors there...on your budget which is the General Fund budget of \$112-113 million we misbudget by less than one percent (1%). So, you go through the budgetary process you have a good idea of what things can be spent on and there's no larger overruns in the revenue cycles, no large overruns on the expenditure cycle so a good process of what you go through and what I did mention is that as auditors we come in, they present these financial statements to us and if we have to go through and make changes to the numbers and make a lot of adjusting entries then the data that you're getting on a monthly basis that you make your decisions on is inaccurate...that is not the case here in the City of Manchester. The documents we get are pretty much...we make a few entries but nothing significant to adjust so that the information that you're getting on a monthly basis is very, very accurate. So, overall I believe your results of operations were as expected from an auditor's standpoint we didn't have any significant adjustments, we didn't pass any adjustments which means sometimes there'll be a number that may not be in accordance with GAAP and it would be immaterial because we do measure materiality, we have none of those embodied in these financial statements so the results of operations were very good. The accounting structure, the internal control structure within the city is very good as we go through the testing of those major transactions at the major departments and the comments we have really relate to the non-major departments...the small departments that are out there that we do have to take a look at but they're not material nature to the city so that's really where our comments...we stumble upon them or we find them as a result of our testing and we'll mention them to you but we do obviously take a hard look at revenue at the Airport and all your other major departments you give unqualified opinion for and also EPD and Water Works and

Recreation, so we did have four comments...I could address those now, I could address the financial highlights if you had a chance to go through the document...I'd be happy to talk about those.

Alderman DeVries stated while we're on page 19 I did have a specific question for you and hoping that you could clarify it for me...the third bulleted item down is referencing the combined ending fund balance of \$67.6 million which is a decrease of \$86.9 million and I'm just wondering what that should be telling me.

Mr. Bassett stated that number does stand out doesn't it. What that is is under this basis of accounting we're going to measure your capital outlay as an expenditure. A lot of times this is as a result of timing because we bonded for these capital expenditures prior to the end of June 30, 2004. So, we took that bond proceeds in and this year we spent those bond proceeds. So, believe it or not on that basis of accounting it pretty much registered like a revenue so this would be the expected decrease because of the timing of the bond proceeds...this \$87 million really has a lot to do with what you spent for capital outlay during the year because in the prior year we measured the bonds that came in...that's revenue and that was in your fund balance.

Mr. Clougherty stated now remember this is for the period ending last June...so we've got all of the school projects in there, we've got the water treatment plant, we've got the Bridge and Elm garage...there are a lot of big projects that went through the city's books in 2005 that as Scott pointed out is just a result of timing.

Chairman Pinard asked are there any other questions from the committee? There were none.

Mr. Bassett stated I'm going to take you to our Management Letter and our observations that we found as a result of our audit. The city has a centralized accounting system...I'll call it the HTE system that's really used by Finance and the major departments throughout the city and we as auditors like to think of things as being centralized, typically one control policy over whether it be a larger revenue or a small revenue...you're not always able to do that...there's always cost benefit factors that go into making these decisions but in our opinion, in our observations we think that maybe if there's too many of those separate type policies out there then the big departments are going to have (i.e., water works, aviation) where they collect different types of revenues so they have their own policies and control procedures in place. I think for the underlying non-major departments we take a look at how we collect receipts and get a uniform policy in place of how people do that throughout the city which is kind of the suggestion we're making there. Again, there's a cost benefit that goes with that...not that we

found anything wrong there but we did find out that we did notice that it was decentralized and not all the smaller departments are using the same type of procedures and we think every transaction should really go into HTE...so, we mentioned that to you as something to think about...maybe prioritize which departments there and set a plan to get everybody within that main system.

Alderman DeVries stated I'll ask a few questions if you don't mind as we go around...I'm trying to remember the combination, the observation from our prior report because I believe this is a repeat.

Mr. Bassett replied yes it is.

Alderman DeVries stated if I recall wasn't there discussion about some of the upgrades to our info systems to bring on-line some of the new financial accounting on-line...banking, VISA...wasn't that all part of this observation?

Mr. Clougherty replied as Scott pointed out HTE is a state-of-the-art system, it's a good system used by a lot of cities and it's comprehensive in nature and we want everything to go through HTE...that was the original plan because it's reliable and the reason we're getting good reports is because the system works and we can get the information to the committees. What we're talking about here is not all of the revenue receipting aspects of the city like parking tickets, dog licenses...interface with HTE. So, for example, in parking violations...they have their own separate system. At the end of the day they tell me how cash they took in...so, I know how much cash went in but I don't know how many tickets were issued unlike other transactions that come before this committee where you see everything that comes in and nothing gets written off except by you guys...I can't tell you how many tickets came in or how that worked and that's problematic. So, what we're talking about is if you want to go to eventually receiving credit cards or going to automated payments it seems to us that you're going to have to get these systems into HTE so that they're reliable and that we can have them audited and that we can have them at a level that's going to be such that we can contract with financial institutions to provide these services. If we tell them that it's an off-line system and it's not being reviewed by the Committee on Accounts there's not many banks that are going to want to do business with you on that. So, up until this point there hasn't been a lot of interest or push to bring these things on but it has been a recurring problem and we're trying to push hard for it. We want to see these integrate into the system...Airport, for example, has it's own very sophisticated revenue system and that integrates with HTE's and you get those reports and the same with Water and EPD...they come through the system. The smaller items for licenses and the nature should tie into the system for a better means of reporting and at least that's the position of the Finance Department.

Alderman DeVries asked what are the impediments in the way of bringing this on-line...is it strictly the amount of money that we have not budgeted to accomplish this or are there other?

Mr. Clougherty replied I think what we'd like to see the committee do is make a recommendation that Finance/Info Systems...because again Finance...these systems get set up without our authority, we're not sure we have all of them we think we do so we can come back to the next meeting of the committee with Info Systems and say okay these are all the subsets that are not on-line, not all interfaced and come back with a strategy and a cost or process for bringing them on-line. And, as I pointed out you may not do them all at once. You may have to prioritize and then bring on parking violations first and do that and then the next year you do another and go from there. But, you have to start the process at some point and stop the proliferation...it's okay there's not going to be any more of these...so, our recommendation would be to have us come back with Info Systems and report to you at the next committee meeting.

Alderman DeVries stated final question because if this is a repeat observation I would assume that you have past information as to why this has not taken place and that's what I'm digging for. Is it a budget situation or are there other impediments in the way.

Mr. Clougherty stated again our position is that they should all be on there but I know that the other departments have some concerns in terms of the information that they feel they need to provide because...to the state, for example...in the case of some of these...so, the interface may not be the easiest thing to do and you're right it may be low on the priority list and what Diane has given all the other applications she's trying to achieve but again this is one that is being mentioned by the auditors and has been mentioned and we don't want to get it to a point where we have to start explaining this to rating agencies down the road. So, we'll go back and talk to Diane...I'd like to come to the next meeting and give her a chance to explain what would be entailed to accomplish this.

Chairman Pinard acknowledged Alderman Lopez.

Alderman Lopez stated thank you very much, Mr. Chairman. I'd just like to follow up...the system that we have in place now where the department heads control and give you the revenue at the end of the day...are you saying it's important for you to know how many tickets and stuff like that...since you

mentioned that...that's important to you...I noticed Kevin Buckley does an audit of these departments...did you take into consideration the audit reports that Kevin Buckley did as to finding out and most of the audit reports I've seen there hasn't been any discrepancies...

Mr. Bassett replied absolutely yes we do.

Alderman Lopez asked how does that fit into your overhaul?

Mr. Bassett replied I still think when any large entity...decentralized systems and in the firm's opinion aren't the best methods to prepare financial statements when you're pulling sources of information from five or six or seven different type of computer systems. Your HTE system is one that's secure, it's one that is state-of-the-art, used by many, many cities and as you go into these smaller systems...under the control features of the HTE system are much better than some of the canned software you can buy for very little dollars are you local computer store and when you start thinking of all of those things that's what we get to the security of a system...the numbers that we provide, as I said, we've given a clean opinion here but the fact that they are decentralized...the controls over some of these systems are no where what we have over HTE...it's something that's of consideration to us as we go through these various departments, so get a better control structure...would be best to get HTE. Everything's cost benefit...getting HTE to an underlying department is so expensive...you have a little bit of risk but you're going to live with that risk...again it's the security over that HTE where you can't manipulate the data through that system which is important to us. I think what I'm talking about is a uniform use of the HTE system. The Airport, for example, they use HTE and that information is available through that system so they would be part of this comment. But, the information is not going through Finance in order for them to pull the data together to perform the financial statements.

Mr. Clougherty stated two separate things. What we're talking about here is using the system to have all of the information generated centrally. Central accounting is something different...central accounting is the pooling of all the resources and the structuring, it's somewhat of a different issue.

Alderman Smith asked why would you...if I was a department head why would I want to go to centralized accounting where everything flows through your department?

Mr. Clougherty replied on this particular issue what we're saying is it doesn't and that's the issue. This isn't about transferring bodies or restructuring the department...this is about how do we get the information even in the same structure, the same decentralized arrangement that we have making sure that all of the information goes through a central accounting system electronically as part of the transaction so that information is recorded and not having all that go through that central system is what the problem is not so much the bodies.

Alderman Smith asked are you telling me now say in the Tax Collector what's the difficulty in them giving the information at a little bit later date, I don't understand what the problem would be?

Mr. Clougherty replied the problem is during the course of the day you have, for example, the Fire Department...not to pick on the Fire Department but I think you're used to seeing the reports where we know each day how many licenses they've given out for alarm boxes, who they've given them to and whether those have been paid or not. When Sharon gives us the reports in Committee on Accounts you go through each one of those reports and it shows you what was accepted for the revenue and at the end of the 60 or 90 days if somebody hasn't paid you get that detailed report and you the Board of Mayor and Aldermen make a decision whether you want to go after them through the collection agency and make that determination, do you want to take the person to Small Claims Court or do you want to write it off because of some reasonable explanation...the same with Traffic, for example. If they've got an issue with a payment that's due to them for somebody that hit a poll or something like that...with Parking Violations and with auto registrations none of that detail gets put in so we don't know how many parking tickets were put out during the course of the day, we know the cash value of what they collected but you don't know how many were taken in and how many were recorded and whether they were recorded properly or whether after 60 or 90 days they're collected or not and you don't know if they're written off. We expect they aren't, but I don't know that...the same with your auto registrations...it's a state system but we don't know whether those items are going into...what makes up that daily deposit so that we can report to you what the details are and once upon a time it wasn't a big number...now, some of these systems are getting to be significant numbers and it's also getting to be a point where we're looking to do things with the budget to make sure that we're getting all the revenue and we're maximizing the revenue and what we're telling you...what the auditors are telling you we can't tell you other than the cash whether you're getting the full value on that. If it comes through the system and it goes through the same receivable

process that everything else does then you're going to see those reports and you're the ones that are going to write those things off and you're going to be able to monitor what the activity is against the budget. Right now, I can't do that. I'm just reporting to you cash.

Alderman Smith stated in other words you want an itemized accounting, you want every individual things whether it's a traffic violation...you want a total amount that says the cash flow was such and such, you want it itemized.

Mr. Clougherty stated I think what you want is an accurate receivables process to be followed and as Scott pointed out we have to look at the cost benefit of doing that in these different sub systems and seeing what it would take to bring them on but a couple of them are getting to be a significant size and we need to start seeing if there's way to have them come in and interface with our system and that's all we're asking is that the Board support or the committee support that action.

Chairman Pinard asked is there a savings by putting everything together? Is it worthwhile?

Mr. Clougherty replied I think that's what we're talking about. What's the cost going to be to do the interface and get this information before the Board. If you're going to get reliable information on your accounts receivable and you're dealing with accounts receivables that are a couple of million dollars a year having the comfort in knowing that accuracy I think may be worth some expenditure, but that's something that once we sat down with Info Systems and costed these things out, talk to Scott to get some experience from some other cities around the country and the Board would have to make that decision. But, at least you'd make a decision and say we're not bringing this system on for this reason and we know we're not bringing it on and then we're going to require that system to generate the reports or some reports that are going to come to you understanding that those aren't coming through the same control system but they may be a different way to do it...that's what has to happen.

Chairman Pinard stated I'm sure this committee is going to look into it because you mentioned the key word "savings" and I think this administration's got a lien on savings.

Alderman Long stated this is basically for the committee...what flags me is the Finance Department's ability to ensure the accuracy and completeness of receivables and renews information bothers me. Being on this committee we're not getting all of the reports that we should be getting...stand alone accounting, correct me if I'm wrong...there are stand alone accounting programs or what have

you that aren't in the HTE, therefore, we don't get them in our monthly or quarterly reports and we're not getting the full picture and I just heard in our organizational meeting earlier today that we oversee the financial reports. So, as far as moving the accounting into a department of what have you...centralized accounting that's another issue that I need to debate here...my concern is getting the full and accurate financial statement and if that has to happen through...if the best way for that to happen is through the HTE systems then we need to look and see how we could get the stand alone programs getting into the HTE system with respect to those that are already doing it...the Airport, Water Works...I don't have a problem with it, I don't have a problem with that. My concern now is to get everybody in compliance so that we're getting full financial reporting. I don't think it's ready to be sent to the full Board of Mayor and Aldermen, I think there are questions we need to ask here. Would a motion be in order here?

Chairman Pinard asked for clarification.

Deputy City Clerk Johnson stated I'm not really clear as to what direction the committee wants to go other than...if I'm understanding you correctly...you would like to have more information regarding the reasons why those aren't and perhaps a development of the list first and I believe this has been done about four or five times in the last six years. The Clerk office could certainly dig out the background information that we have if you want to start there that's fine or you can start with a whole new thing...have them go through it all over again. I think it really only involves probably four or five departments. I know Randy did an extensive review I want to say during the last term. It comes up pretty much every two years.

Mr. Clougherty stated yes. It's an important issue that needs to be addressed so we can bring you more detail in a subsequent meeting.

Deputy City Clerk Johnson stated I think we could also dig out the last reports that Randy provided the committee.

Chairman Pinard asked does anyone want to make a motion on that?

Alderman Long stated if I could just ask Kevin some questions...are these departments stand alone entities, do they have capabilities of getting onto HTE? Do they have interface capabilities?

Mr. Clougherty replied my understanding is that the HTE would accommodate those functions.

Alderman Long asked do we have a list of these stand-alone entities?

Mr. Clougherty replied right we have the list that we've gotten from Scott that we think is complete but again we'll go back to Info Systems and make sure there's none that have been added since that last list was complied.

Alderman Long stated this is not the first time this issue has been brought up, do you have an idea maybe as to what it would take or how long it would take if we were forthwith with the resources, how long it would take for them to be in compliance.

Mr. Clougherty stated again I don't know that that is something that I think we need to bring Diane into that discussion.

Chairman Pinard stated, Carol, we could probably schedule a meeting with Kevin Clougherty regarding HTE to go over this and in the meantime Kevin can get us a list of departments not on HTE and then we can review and process.

Deputy City Clerk Johnson stated if I could suggest because this has come up so many times I think that before you bring in HTE you probably want to get a list of the departments and you probably want to get some responses from the departments because they've been through this process several times and I think then you can bring in HTE and say okay how can you accommodate some of the issues that are coming up and you'll have some better ideas of the cost because in some instances you're talking about additional staff in departments in order to process stuff that will take far longer to do and other issues they can't accommodate it...there's just a whole variety of issues so I think you want the departments and the Finance Department and probably Diane Prew to come to the next meeting and respond to that. Certainly if they get out a list to the departments the department heads can be here and appear before the committee as well.

Alderman Smith stated my suggestion would be to get the various departments that are not in compliance, have a meeting in Accounts and have these people state why they couldn't be in this system that Finance is concurring with.

Chairman Pinard asked are there any other comments regarding this matter?
Carol, can I call a meeting?

Deputy City Clerk Johnson replied we can place that item on the next Accounts meeting or whole a special meeting...we'll check the schedules for that. There is no motion necessary.

Alderman Long asked could we have those entities that aren't in compliance.

Deputy City Clerk Johnson stated I think that the Finance Department is going to work on getting a list, they give it to the Clerk, the Clerk will make sure the departments are here to respond.

Alderman Long asked in order to expedite this could they let us know what resources...I'm not talking financial...I'm talking whether it's more labor, etc.

Deputy City Clerk Johnson stated to the extent that they have those answers I'm sure that they'll be happy to provide it.

Chairman Pinard asked could you give us a date when we could hold a special meeting.

Deputy City Clerk Johnson stated we'll schedule something for the committee.

Chairman Pinard asked are there any other questions on this issue. There were none. Mr. Bassett please continue.

Mr. Bassett in reference to item number two of the Management Letter stated we talk about segregation of duties and any control structure either should be a check and balance, a prevention and a detection control and whenever you have one individual approving, reviewing and posting to a general ledger it would highlight an inaccurate segregation of duties. During the purchasing process we did note that in some instances the same person was responsible for requisitioning the funds, the goods, approving the purchase, receiving the goods and ensuring adequate funds exist in the budget and posting to the general ledger. Put internal control over purchases required at separation of duties...so, again, we talk about maybe taking a look at those individual controls and most of the times here we're not talking about a large expense, we're talking about just taking a look at what is done through the process and designating someone other than one individual getting involved in the process and reviewing and approving before the posting so there's a prevention and a detection control over any control cycle.

Chairman Pinard asked are there any questions from committee members? There were none. Scott, is there anything else you wish to address?

Mr. Bassett replied yes we have two more...we had talked about a few years back a compliance officer regarding grants and in compliance with what types of grants and I guess I'd like to say the large departments...Water Works, Airport...they get some specialized grants and they have experts that go through those but again you look at your federal grants that come in there are a lot of \$3,000, \$4,000, \$5,000 grants that come in and come through the city and a lot of those times those grants

although not material in amounts due require the same type of oversight that a million dollar grant would require due to the fact that it comes from a federal agency. We have a lot of different grants out there when we pulled the information together...it's our opinion from what we see what works best is that once the grants are applied for...the reporting be done by one centralized person to make sure that we're capturing all of the data and that we are in compliance with the federal requirements that go in accordance with those grants so maybe marking what grants you apply for, making sure that when we do apply for those grants that the person has a knowledgeable understanding of OMB 133 and what what's required to supervise and to maintain within the grant requirements. Again, there's cost benefit to that but we do have many, many dollars that flow through the federal government to the City of Manchester...that we are required to take a look at those and look at the procedures over those...this would tighten that. Again, I just want to make clear that what I'm talking about here are not material weakness of compliance they're just observations that we saw that may strengthen your control and at the beginning when I talked about this letter you go through three criteria...these are just instances where they are observations and are not considered a material weakness to your control structure.

Chairman Pinard asked are there any questions from committee members? If not, I'd like to ask Scott...

Mr. Bassett stated one more item...an insignificant item but as we assess controllers we do pull a sample of payroll transactions to personnel files to make sure that all of the supporting documentation supports the amount being paid, that it's approved, that there's an appropriation for it and during our testing of that transaction cycle we did note that there was one...no authorized pay rate documented for a part-time employee who worked. We just think that all of those personnel files have to be updated and have a process that everything's in there because of all of the labor laws and things of that nature...there should be one centralized document that says what has to be in a personnel file prior to starting work. That's something that all companies do and something that we found which is why we bring it up to you. It wasn't a significant amount of dollars or anything of that nature but was found during the course of our testing so we bring it up to you. It could have been an isolated incident but we bring it to your attention...maybe taking a look at just how personnel files are put together, how people are paid.

Chairman Pinard asked are there any questions from members? Anything else Scott?

Mr. Bassett replied no, Sir.

Alderman DeVries stated I have a few questions back on the annual report that you gave us...I guess I'll refer right on page 17...the bottom of the page you're describing the receipt of title to the Manchester Civic Center as a non-exchange transaction and I'm just hoping that you can elaborate on that to tell me what the implication is.

Mr. Bassett stated the city accounts...since the time the civic center was built two or three years ago and Randy can correct me as far as how the transaction worked but I believe it went through the Manchester Housing and Redevelopment Authority...the Redevelopment Authority issued the debt to build the civic center. At the time the civic center was completed the city brought in the civic center as an asset. As auditors we had a difficult time reconciling and bringing in an asset without any debt...and that pretty much is saying that the civic center was donated to the city without any recourse. Through the documentation we had and consultation I had with some other partners in our firm from our national accounting and auditing group we have a difference of opinion, we believe that some of the debt associated with the civic center probably should be recorded...it wasn't an issue prior to the GASBY 34 where we went to full basis of accounting and that's the premise of that one particular transaction...either it be an exchange or not exchanged transaction.

Alderman DeVries stated I guess I'd like a response from Finance.

Mr. Clougherty stated if you recall one of the important elements of the transaction for the civic center was that for that project to go forward the City of Manchester was not going to be responsible for the debt. We were going to take the money that we got from the Rooms and Meals Tax and provide that after we deducted our \$470,000 that we had always gotten and provide that to a trustee and the trustee would use that to pay the debt on the public piece of the bonds that were issued for the civic center. It was very important from the City Solicitor's standpoint, from Bond Counsel standpoint and from the city's financial advisor's standpoint that that be clear in our financial statements. We are not responsible for the debt. Our responsibility is to take our Rooms and Meals money and provide that to the trustee for the Manchester Housing and Redevelopment Authority. If the Rooms and Meals money isn't sufficient to cover the debt service that's not the city's problem...there's bond insurance that's been solicited and obtained by the Housing Authority for that purpose and it doesn't have an impact on the city's financial statement. We feel that's very important that that be clear. The reason the Bond Counsel and the financial advisors and the Solicitor are so strong on this is because if you were to bring on that debt just as an illustration or just to comply with this requirement someone could come back later on and say well wait a second...now, that is your debt, it's on your financials and

you've got to pay for it. So, because of that we have been meticulous in our description of this transaction and I think Scott will agree with this...we've gone through great details over the years to work with Scott and make sure that we explain what the transaction is. So, if you go to the footnotes it will explain in detail why this is not included on the city's balance sheet or financials. We also think it's important that if the auditor's disagree with that that they put it in their letter. We don't want anybody, we're not trying to hide anything here. We want to make sure that if this is an issue people should see that in their letter they should go to the footnotes in the financial statement and they should understand what the transaction is and why we, as a city, recorded it the way that we have and why we're willing to take that opinion from the external auditors for that. We just felt that down the road especially while there was another piece to this in the form of the private side financings...we don't want anybody thinking that this is our debt. We agreed that we would take ownership of the building and we got ownership of the building because we were going to take our Rooms and Meals money and make that available through a trustee for payment...that's the extent of your liability on that and that's why it's presented the way it is.

Alderman DeVries stated I could have an additional question on that and maybe Scott was about to jump in but if I understood we do accept the asset on our books.

Mr. Clougherty stated we do record it because it is the city's property according to the Solicitor and according to the way that the deed is written.

Alderman DeVries stated I guess what I am missing in my understanding is how that really impacts our balance sheet when we've accepted the asset without any offsetting liability or depreciation of the asset and whether that has changed the look of our balance sheet and maybe this is a more in depth conversation than what we want to go into today, maybe you could meet with me.

Mr. Bassett stated Kevin said it was described in the footnote as absolutely correct as far as from...we're not attorneys but from the legal standpoint how the deal was structured I agree with everything that Kevin has said. Where we tripped up a little bit is when you get into the accounting pronouncements although not specific to this type of transaction they go into other things other than legal items of how to recognize things and we could talk about it from a technical standpoint where we got to the point where we disagreed a little bit with Kevin and how it should be recorded and then it gets into more obligations...you do have a fiscal funding clause which pretty much states that if you don't make the appropriation you don't have to pay for the debt...there's no assurances that you're going to make those funds available and that's right in the legal document. But, they also get into things where you go to the pronouncement...moral obligations and other type of

things from a GAAP standpoint we took a hard look at. To answer your question as far as the effect on the financial statements...we have three measurement bases...we have our whole accrual of accounting that we see once-a-year when we put this CAFR together which measures long-term liabilities and measures the long-term assets of the city. Our opinion...what we're qualifying is only on the government-wide statements where it would affect you is we would have to measure liability of whatever those outstanding bonds are at the date of June 30, 2005. But, from a budgetary standpoint and how you go through the budget process it has no effect on you. This asset is being depreciated on your financial statements for those government wide statements where it shows up from a day-to-day operational standpoint it has no effect.

Alderman DeVries stated I have a couple of additional questions if I might continue on. On page 24 and I'm referencing more of the pension obligation bond that you mention on that page and if I understood the prior notations the City Contributory Retirement System is, I think, you called is a discreet account...my question is more general rather than the actual content of this paragraph. If that is a discreet account and we carry that pension obligation bond somewhere within our books how in the greater picture of bond ratings and when we look at the different obligations...how closely do we need to follow the pension obligation bond to be concerned with how it might be impacting future credit ratings for the city.

Mr. Bassett stated the pension obligation bond itself...how that transaction works is...a liability had accrued in the pension plan to fund employee benefits. What the city did a few years ago is they borrowed, I believe, it was \$20 million somewhere in that area and what they did was they pulled the debt onto their books, the \$20 million and they put the proceeds from that into the Pension Trust Fund to offset the accrued liability. So, you're paying down that debt.

Mr. Clougherty stated what happened is there's two pension systems. There's the so-called new system that anybody...prior to 1974 if you were a city employee in Manchester you worked 20 years and if you worked 20 consecutive years, you retired and you got half pay. If you retired on Friday and died on Monday you got nothing. So in 1974 the city said we're going to start up a Contributory Retirement System, the city and the employees are going to contribute to it and we're going to build a fund and we're going to have all of our liabilities taken care of through a contributory defined benefit program...that still left a lot of people who were in the old system that choose not to go into the new system because they had a choice. So, the pension obligation bonds...what we did was we looked how much you're paying each year for the old system retirees...understanding it's a closed system...eventually in the next few years by mortality rates it's going to go

away. We looked at what the costs were for that and said well instead of paying that each year you could go out and borrow less than the aggregate liability...the earnings that you would make on that in investments would reduce the amount of money that you're paying in your budget. So, we took the \$20 million and that relates to not the new system but the old system and that's why it shows up where it does. The investments have been working and they are managed by the Trustees of Trust Funds and that's what reduces our payment on the old system and the reason we did that...we would not recommend doing pension obligation bonds for the new system...the old system was closed and we know that people are weaning off...they're joining the new system so we'd always have enough money to make that work even if your earnings in a particular year weren't great the demographics were in your favor and that's why we favor the pension obligations bonds.

Chairman Pinard stated I'm sorry but we will have to cut this short the Board has a meeting.

Deputy City Clerk Johnson stated the Board has a meeting in two minutes so we just wanted to remind the committee that it needs to adjourn.

Alderman DeVries stated I understand and I hope my last question will be simple. I'm looking at the reference on page 84 to end fund deficits including the CDBG which I'm not sure if I've noticed that there before and I'm wondering if that's strictly because of the difference in the fiscal years between the federal government and the city...it's small \$83,000.

Mr. Bassett stated part of it has to do with timing and part of it has to do...we take a look at loan balances and allowances for those types of balances and things but for the most part of that \$83,000 next year I would expect that to be back to close to a zero fund balance.

Alderman DeVries stated certainly the second one you noted we're well familiar with from past discussions being Aggregation but I don't recall CDBG having been an issue in the past and I didn't know if you considered that a red flag.

Mr. Clougherty stated I think it's mainly the drawdowns but I'll go back and get you the details and give you an explanation at the next meeting so that you know exactly what that is.

Alderman DeVries stated I appreciate that and I think my final comment would be that we as a committee probably ought to take all four of the comments, however, much time maybe want a meeting or whatever and deal with them.

Chairman Pinard stated we will continue this at the next meeting. One quick comment on my part. I want to thank both of you for being here and I would like to thank the other staff for a job well done.

There being no further business to come before the committee, on motion of Alderman DeVries, duly seconded by Alderman Long, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee